

Investing in Uncertain Times

**Illinois Community College Chief Financial Officers
Spring Conference**

April 23, 2025

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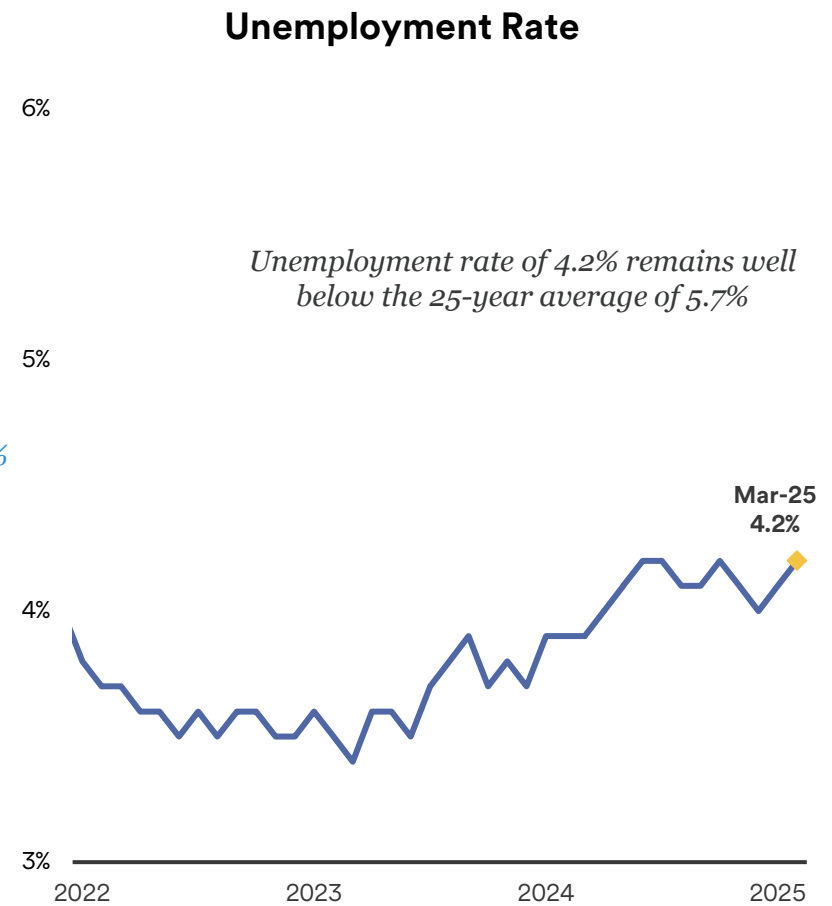
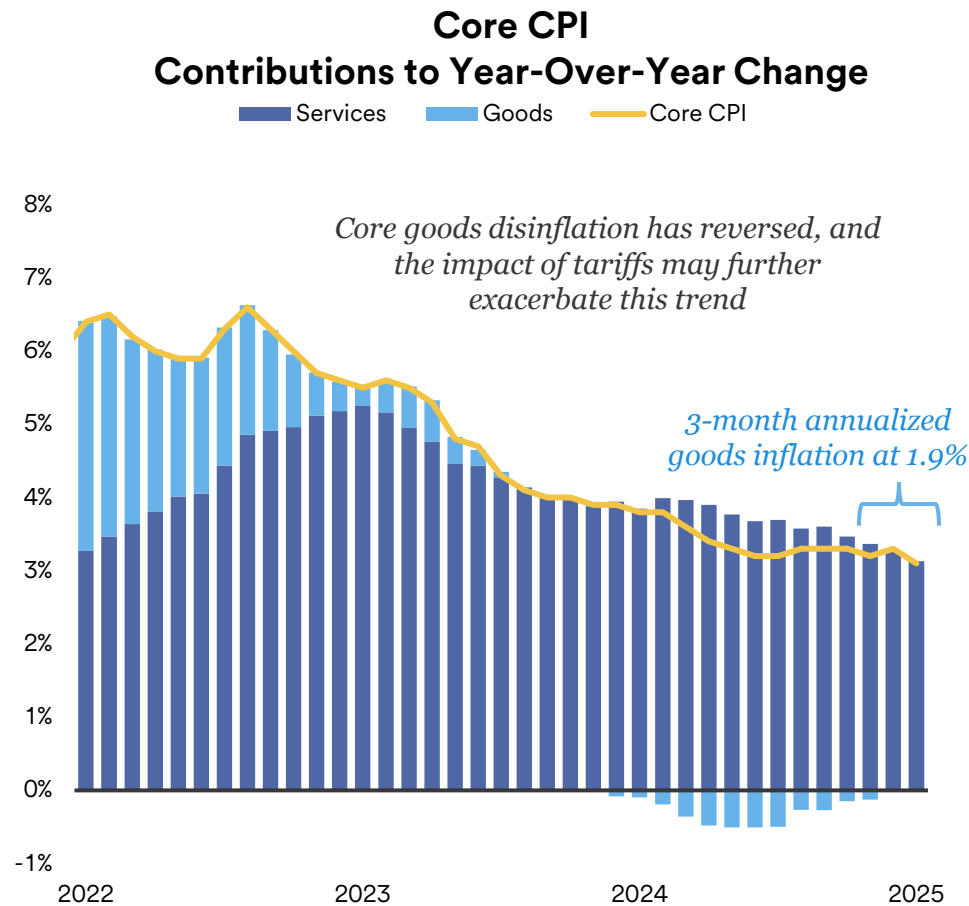
Jeffrey Schroeder
Managing Director

Market Update



The Fed's Dual Mandate Gets More Complicated

Fed Chair Powell : “...ultimately, though, it's too soon to be seeing significant effects [from tariffs] in economic data...”



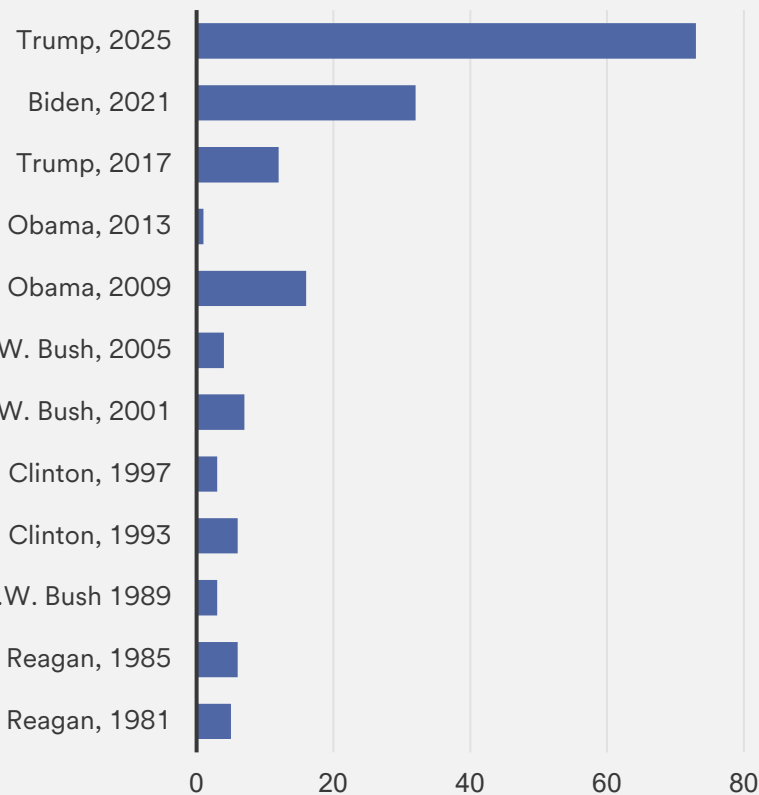
Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Bureau of Labor Statistics, and Bloomberg Finance L.P., as of February 2025 (left). Bureau of Labor Statistics, and Bloomberg Finance L.P., as of March 2025 (right). Data is seasonally adjusted. Historical average unemployment rate calculated from January 2000 – March 2025.

Policy Changes Increase Consumer Uncertainty

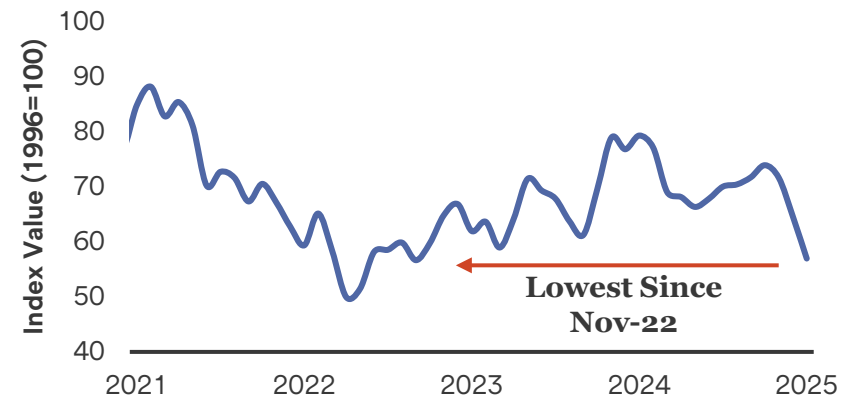
Fed Chair Powell: “We understand that sentiment is quite negative at this time, and that probably has to do with ... turmoil at the beginning of an administration...”

Number of Executive Orders Signed In First Month of Term

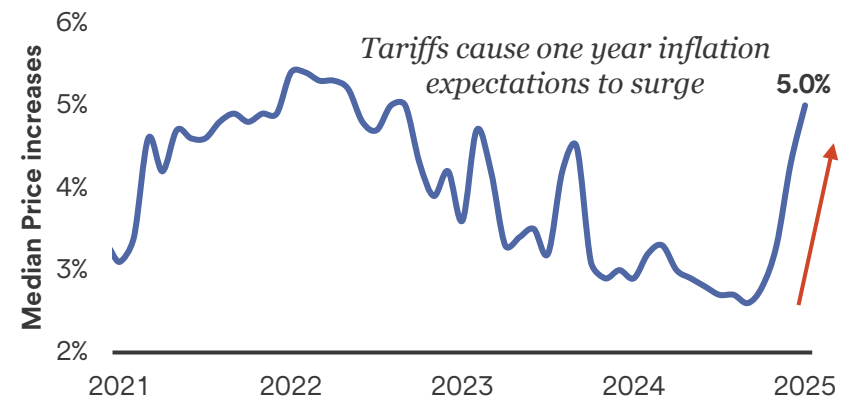
Jan 20 – Feb 20



Consumer Sentiment Index



Expected Change in Prices During Next Year



Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Bloomberg Finance L.P. and [Federal Register :: Executive Orders](#), as of March 2025 (left). University of Michigan Consumer, as of March 2025 (right).

Tariffs Have Broad Economic Implications

Tariff Implications



Inflation

Fed staff research¹ suggests each 10% increase in the effective tariff rate leads to a 0.8% increase in inflation



Economic Impact

Fed staff research¹ suggests each 10% increase in the effective tariff rate leads to a 1.4% decrease in GDP



Tariff Revenues

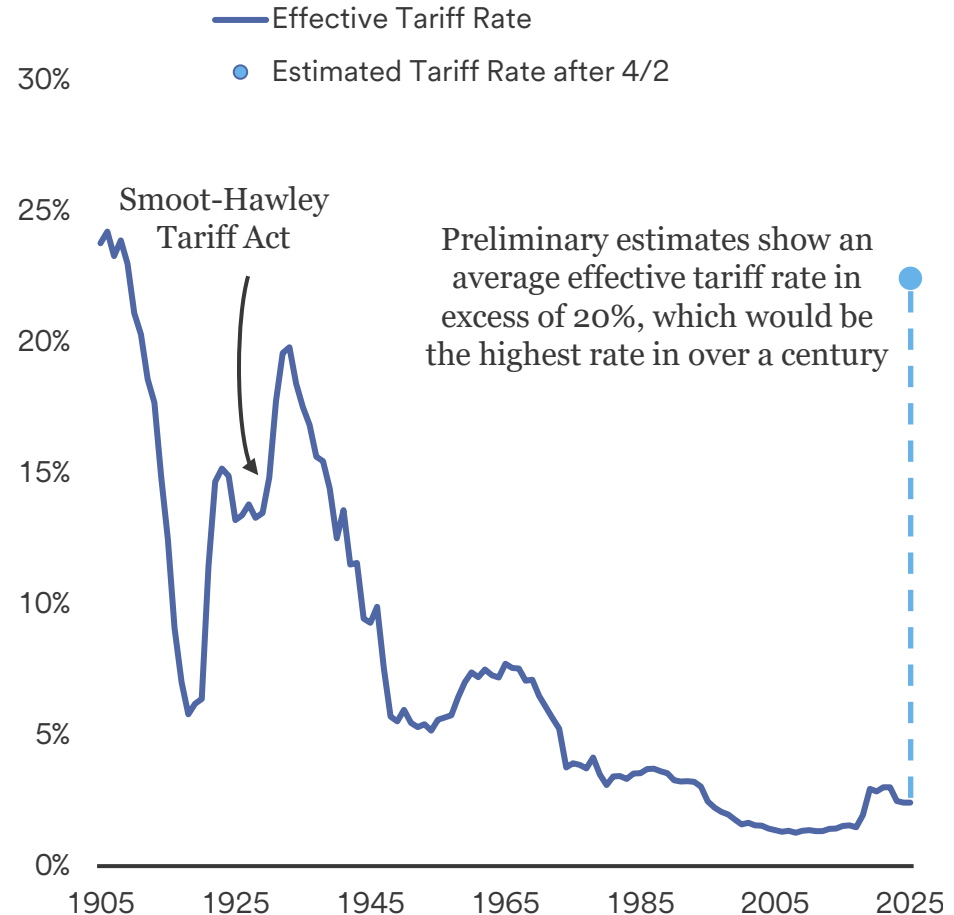
Each \$100 billion of tariffs paid by the consumer is approximately equal to a 0.4% increase in income taxes



Consumer Spending

Price increases and uncertainty could directly impact consumer confidence and spending habits

Effective Tariff Rate



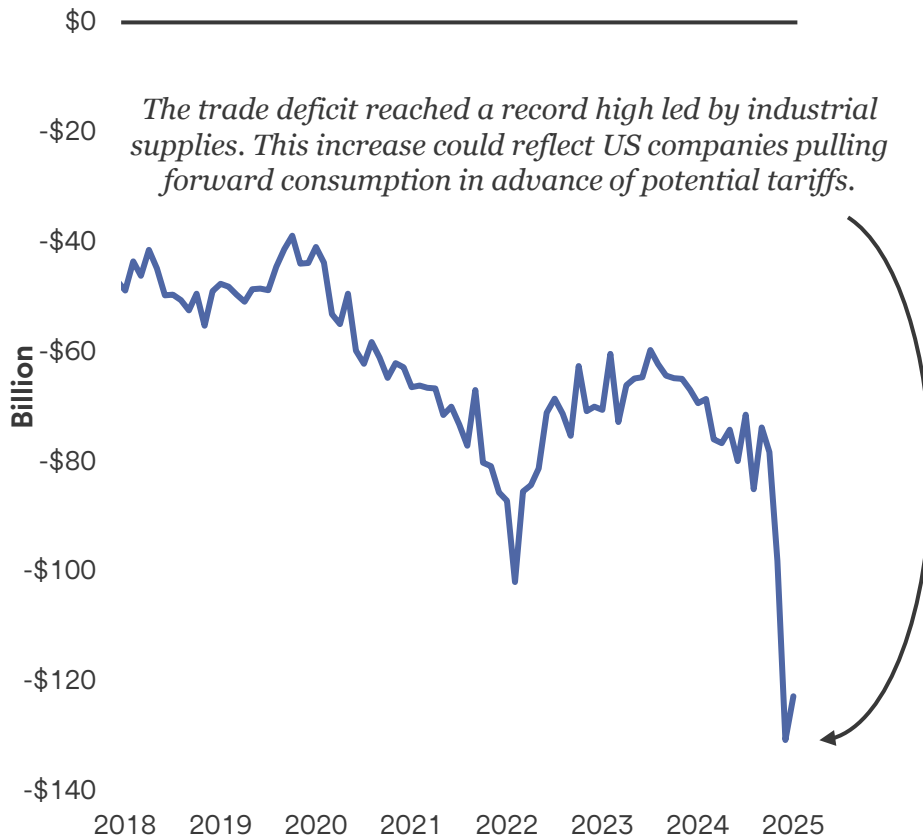
Source: PFMAM calculations, Bloomberg Finance L.P., Bureau of Economic Analysis. As of April 2025.

1. Federal Reserve: [Tealbook A, September 2018](#).

Tariffs Drive Growth Expectations Lower

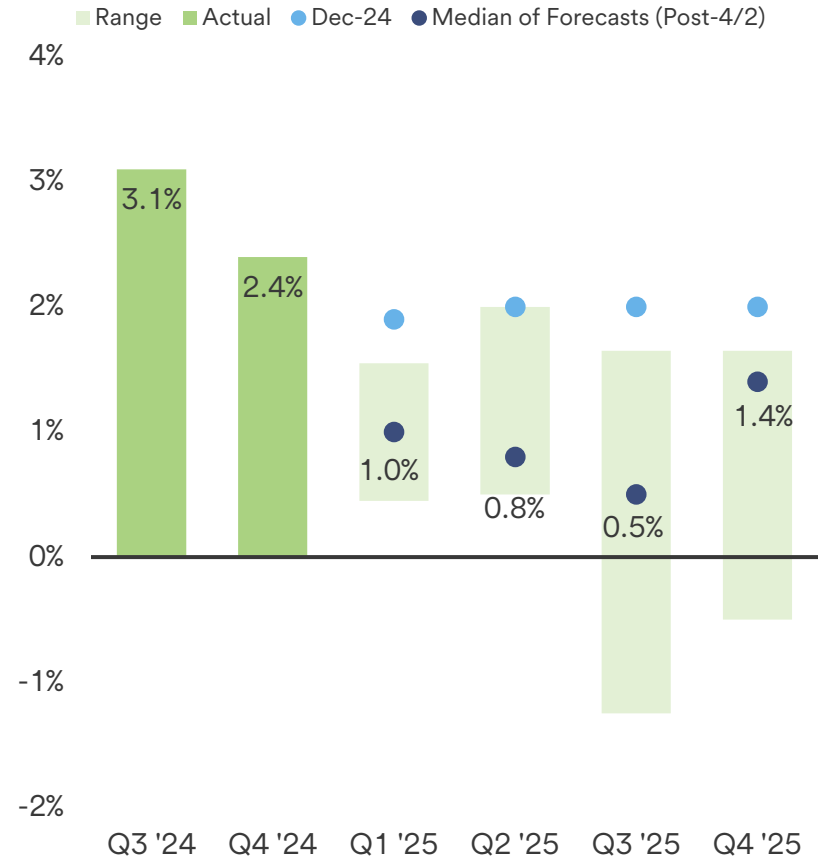
Fed Chair Powell: “But we kind of know there are going to be tariffs and they tend to bring growth down.”

U.S. Trade Balance



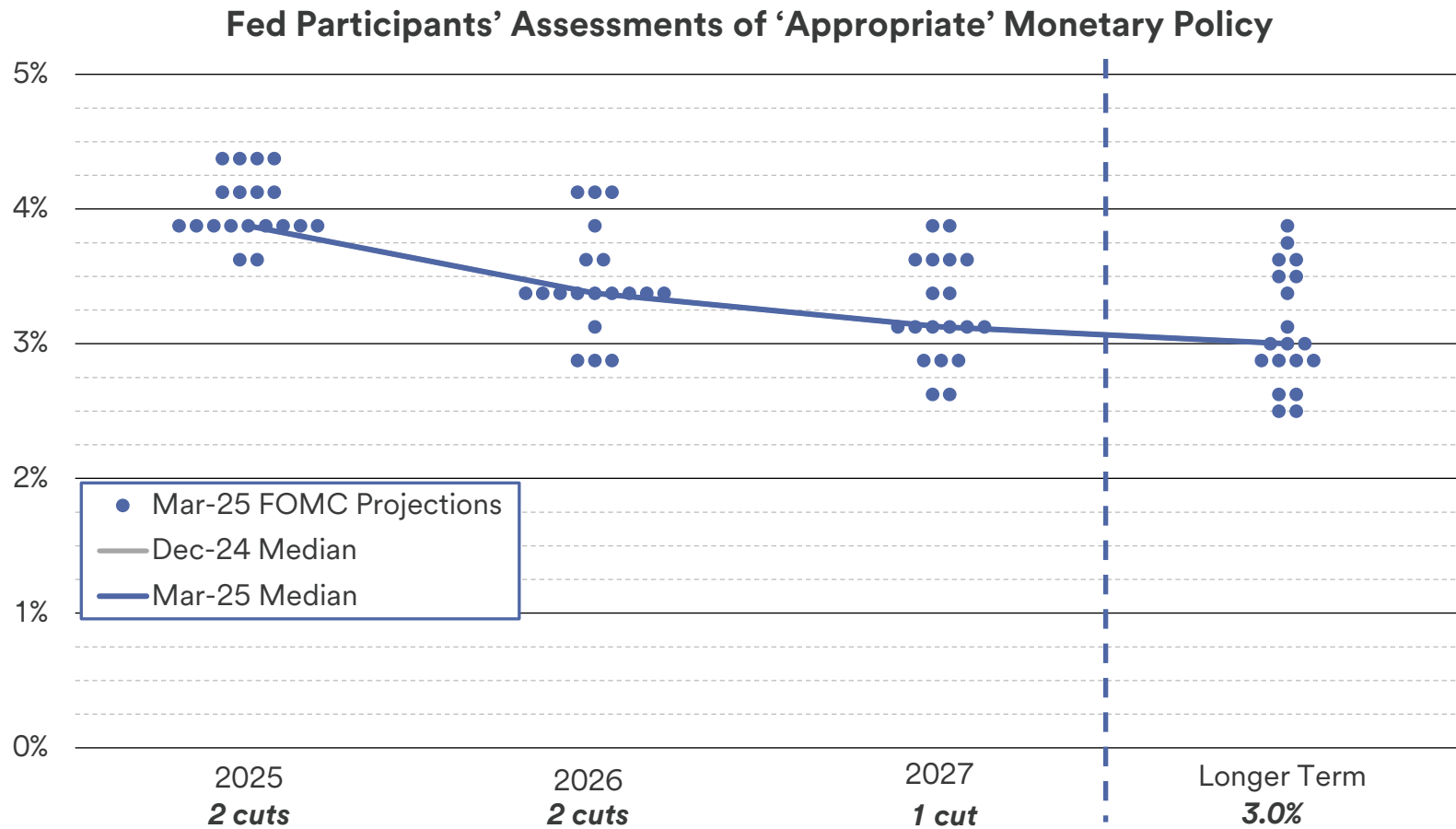
U.S. GDP Forecasts

Annualized Rate



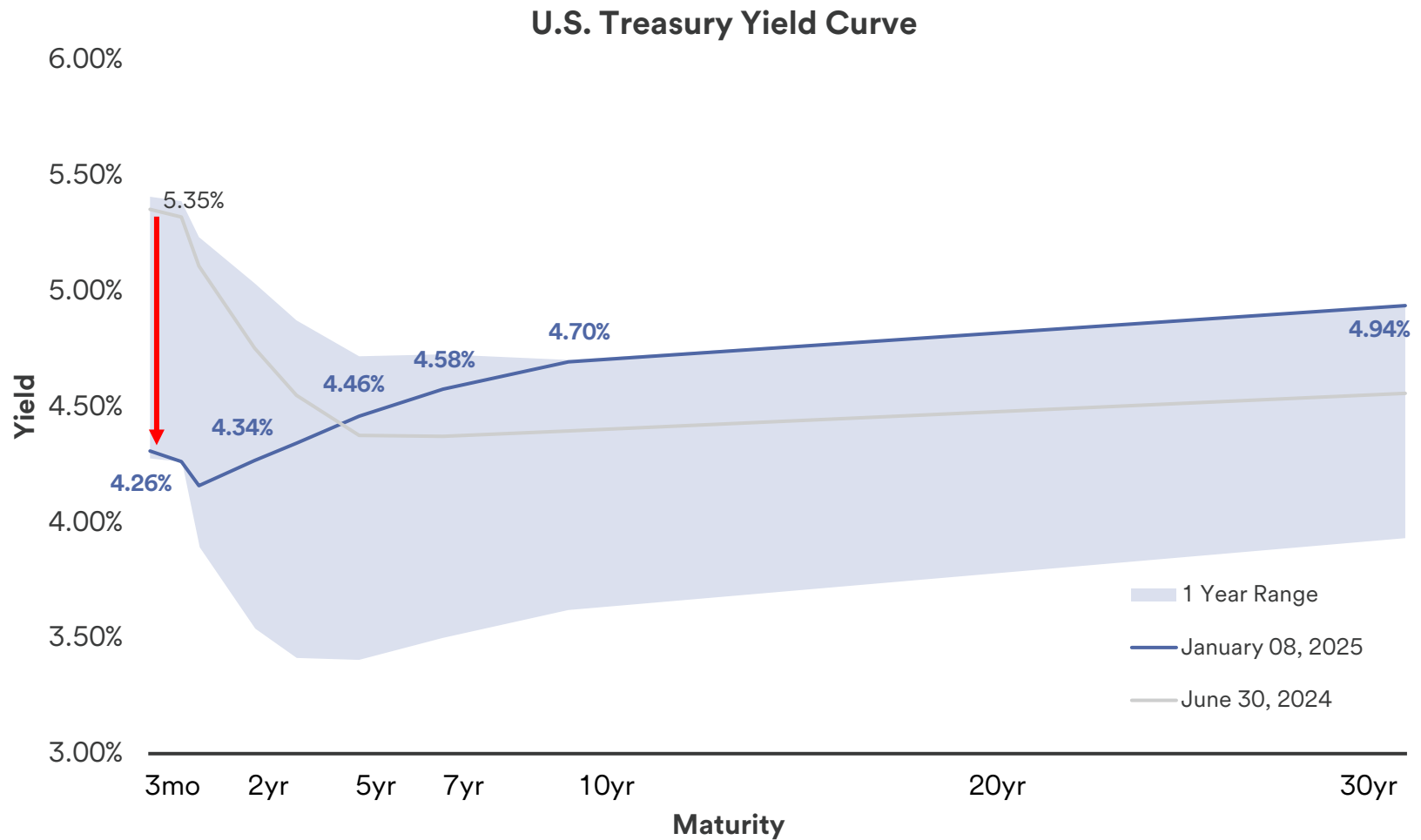
Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025; Bloomberg Finance L.P. and the U.S. Census Bureau as of February 2025 (left). Bureau of Economic Analysis and Bloomberg Finance L.P., as of April 2025. Survey responses after April 2, 2025 included in median and forecast range (right).

The Latest Fed “Dot Plot”



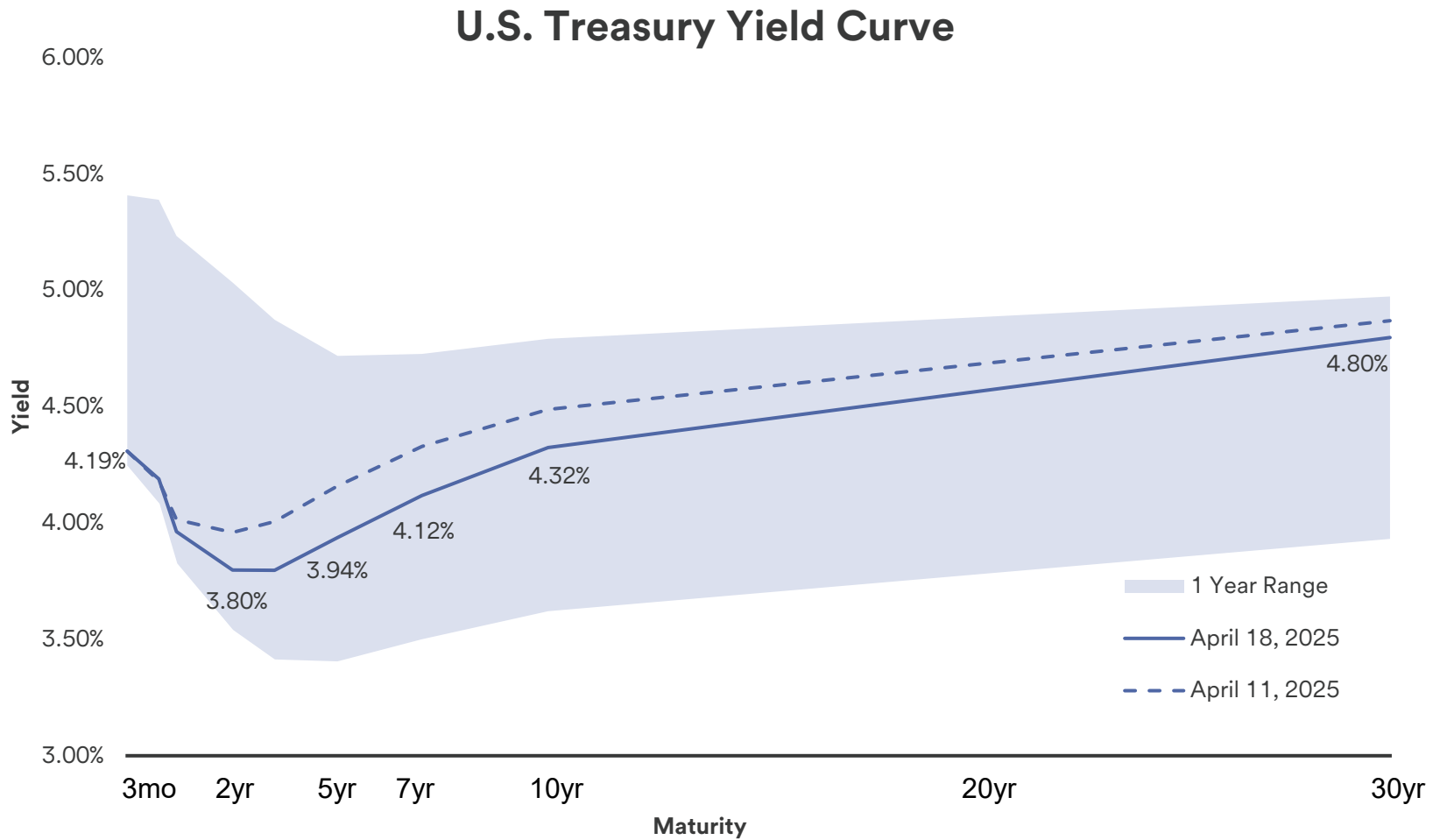
Source: Federal Reserve; Bloomberg Finance L.P.. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. As of March 2025.

U.S. Treasury Curve



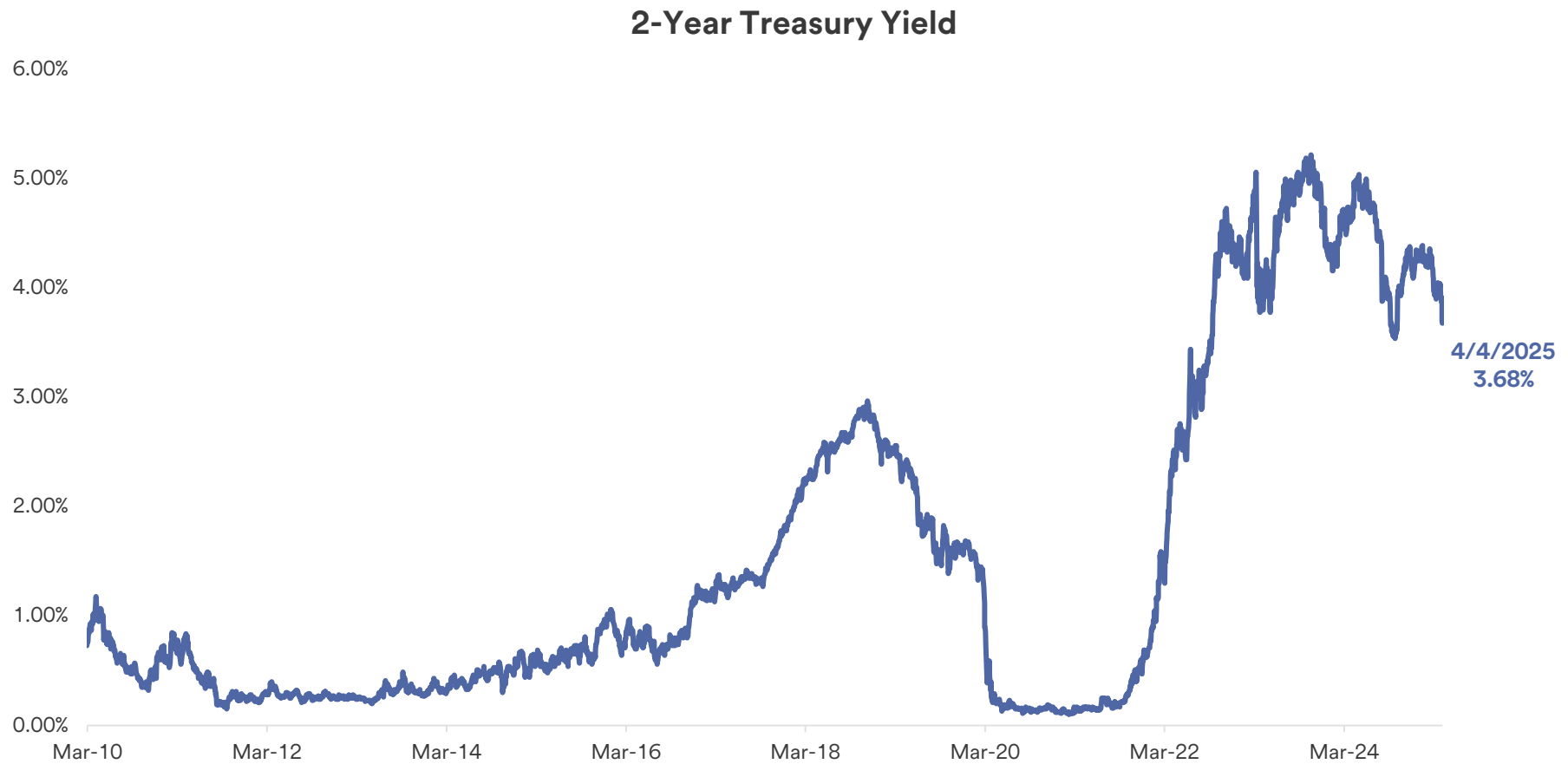
Source: Bloomberg Finance L.P., as of 01/08/2025.

U.S. Treasury Curve



Source: Bloomberg Finance L.P., as of 04/18/2025.

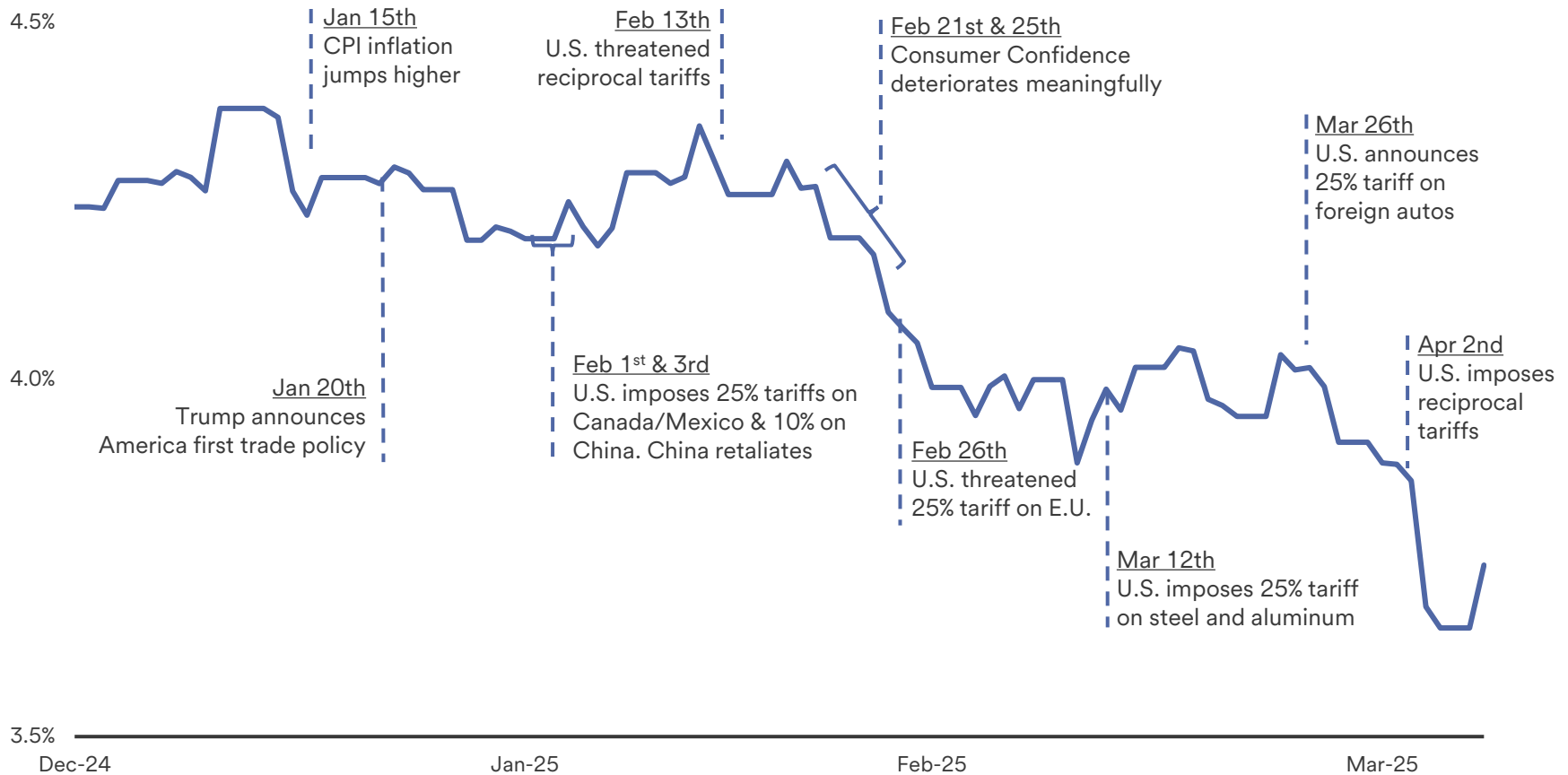
2-Year Treasury Yield Over Last 15 Years



Source: ICE BofA Indices.

Treasury Yields Lower On Tariff Concerns

2-Year U.S. Treasury Yield December 31, 2024 – April 7, 2025



Source: Bloomberg Finance L.P., as of April 7, 2025.

Sector Yield Spreads

1-3 Yr. AAA-A Corp



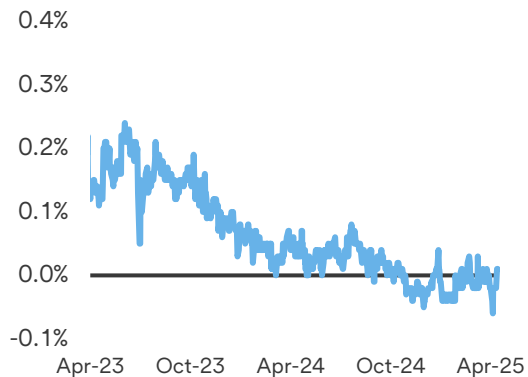
1-5 Yr. AAA-A Corp



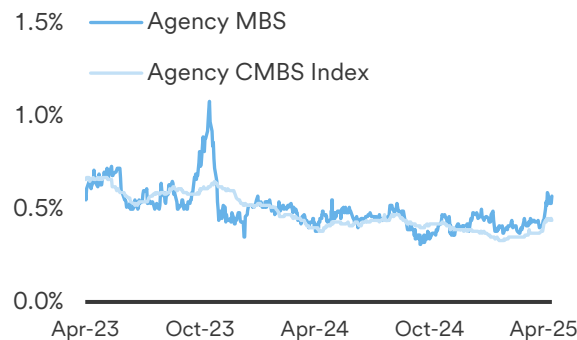
1-10 Yr. AAA-A Corporate



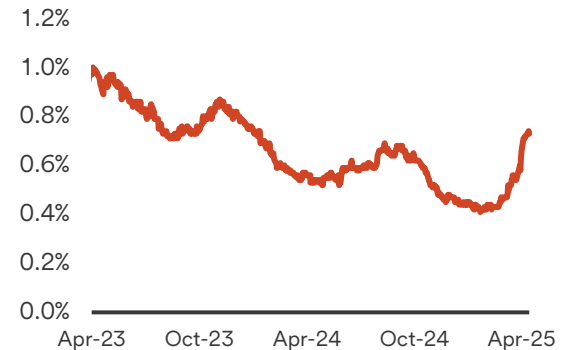
Federal Agency Yield Spread



Mortgage-Backed Securities Yield Spreads



Asset-Backed Securities AAA Yield Spreads



Source: ICE BofA Indices via Bloomberg Finance L.P., MarketAxess and PFMAM as of 4/17/2025. Spreads on Agency, ABS, and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.

Investment Strategy Considerations



Investments Objectives

Safety

- Protect principal
- High quality investments

Return

- Provide necessary recognizing need for safety and liquidity
- Subject to restrictions specified by the state statutes and the investment policy

Liquidity

- Provide necessary liquidity to cover both ongoing/unexpected cash needs
- Cash flow analysis

Additional Objectives

- Comply with legal restrictions and regulations
- Accountability and Transparency
- Stability



Permitted Investments

- Define in Investment Policy
- Complies with the Illinois Public Funds Investment Act (30 ILCS 235)
 - Recently Amended, Effective 1/1/2025
- Can set diversification limits
 - Term
 - Sector
 - Credit Quality

Sector	Allowed
Bank Accounts	Yes
Local Government Investment Pools	Yes
Certificates of Deposit	Yes
U.S. Treasuries	Yes
U.S. Agencies	Yes
Instrumentalities (Supras)	Yes
Agency Mortgage-Backed	Yes
Municipal Bonds	Yes
Commercial Paper	Yes
Corporate Notes	Yes
Corporate Bond Fund	Yes
Equities	No

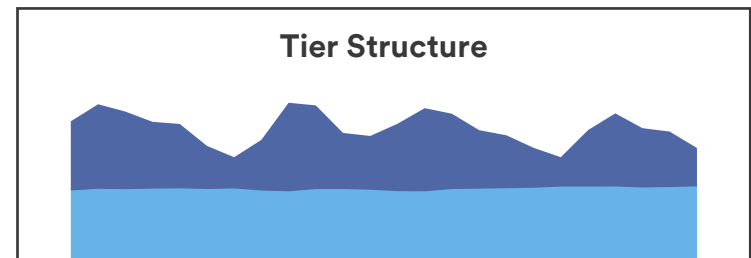
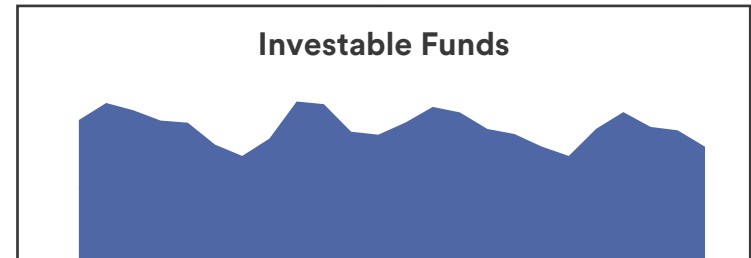
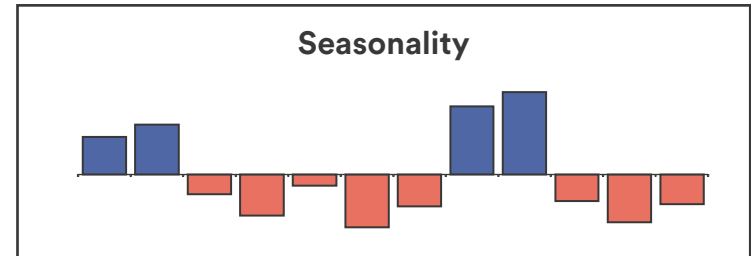
Develop, Review, Amend, Improve ... Then Review, Amend, and Improve again 😊

- Objectives
- Standard of Prudence
- Ethics & Conflicts
- Delegation of Authority
- Selection of Broker / Dealers
- Competitive Selection
- Safekeeping and Custody
- Internal Controls
- Authorized Investments
 - Specifically define
- Belts and Suspenders
 - Diversification
 - Sector
 - Issuer
 - Maximum Maturity
 - Security Downgrades
 - What to do?
- Performance and Reporting Standards



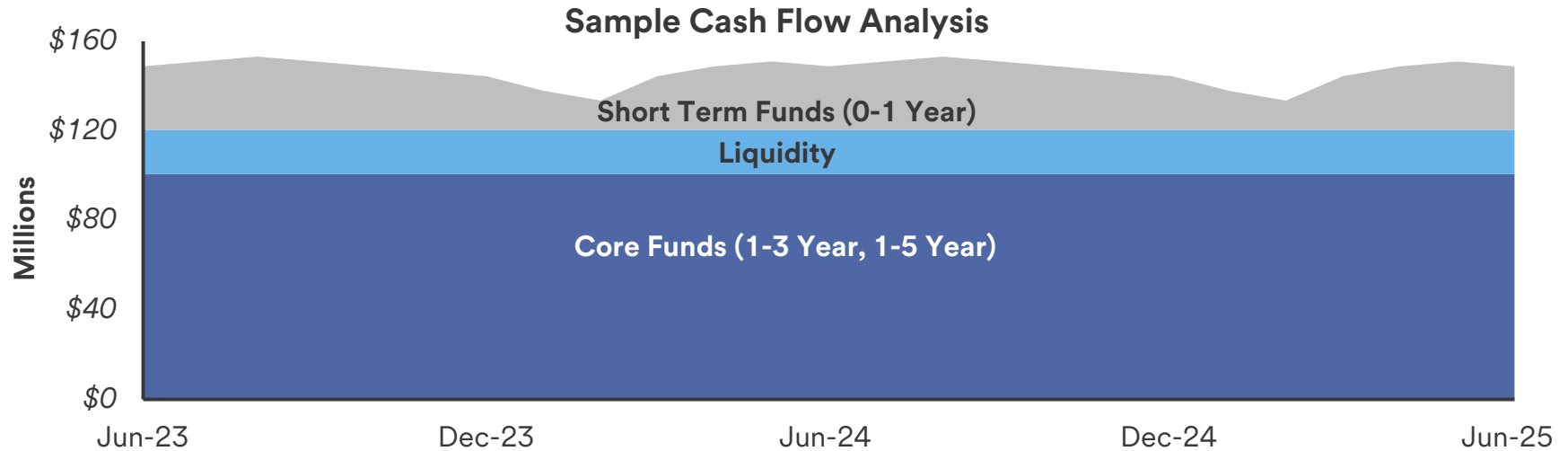
Cash Flow Analysis Helps Define Strategy

- ▶ Seeks to provide confidence in liquidity position
 - How much can be invested, how much needs to remain liquid?
 - When and where are your particular stress points?
- ▶ Assists with investment strategy development
- ▶ Potentially increase investment income while managing risk



For illustrative purposes only.

Optimizing Portfolio Segmentation



Short-Term Funds

- Laddered investments to known and expected cash flows
- High-quality fixed income

Liquidity

- Cash and cash equivalents, providing immediate access
- Highly liquid for daily needs and unforeseen expenditures

Core

- Reserve funds not expected to be spent for the foreseeable future
- Intermediate- and longer-term investments

For illustrative purposes only.

Longer Duration Portfolios Have Provided Higher Returns Over Time

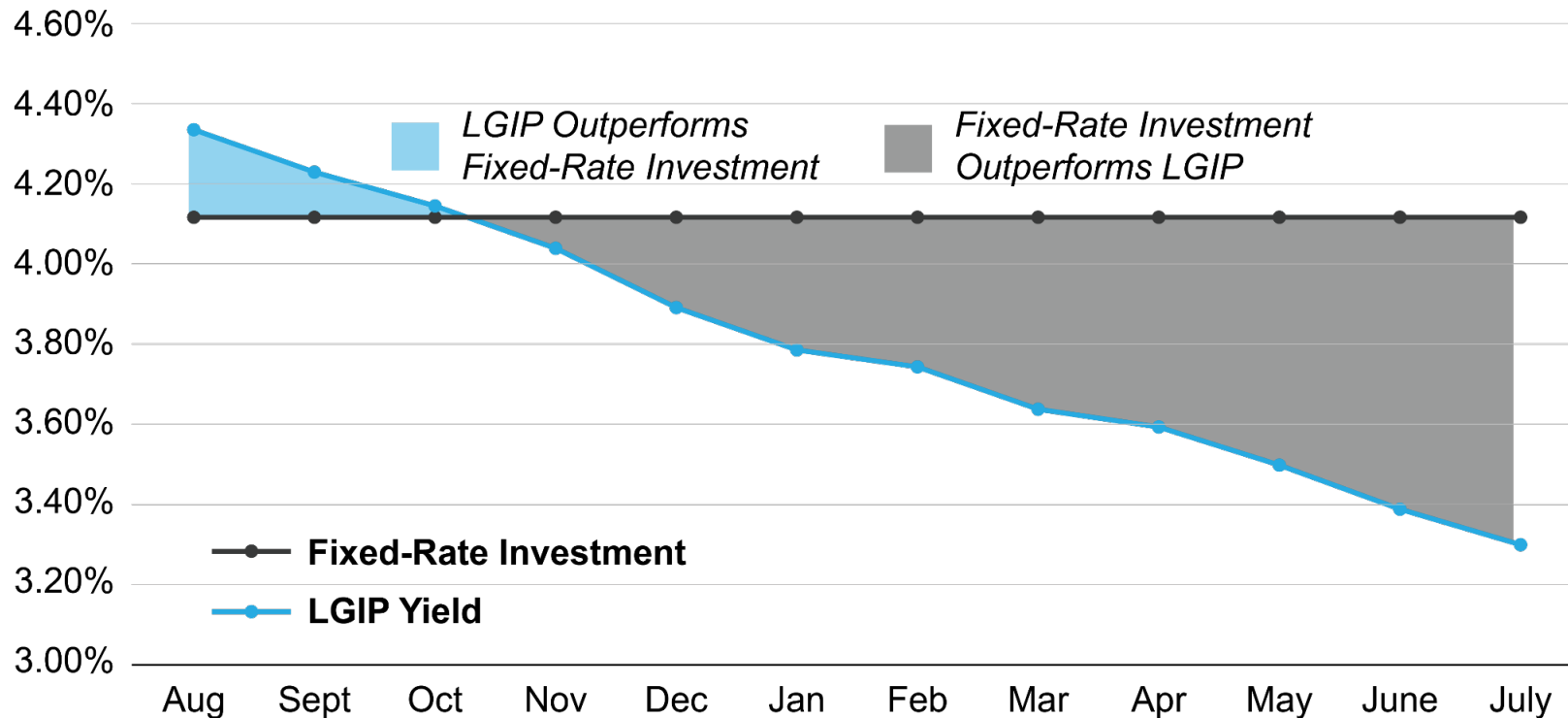
Establishing a longer term, actively managed strategy for core operating reserves could greatly increase the earnings potential of the investment program over time.

30 Years Ended December 31, 2024			
Bank of America Merrill Lynch Treasury Index	Duration (years)	Annualized Total Return	Cumulative Value of \$100 Million
3 Month Treasury	0.22	2.48%	\$208,438,885
1-3 Year Treasury	1.81	3.20%	\$257,199,238
1-5 Year Treasury	2.55	3.52%	\$282,341,642
1-10 Year Treasury	3.56	3.87%	\$312,321,453

Source: Bloomberg, Bank of America / Merrill Lynch Global Indices; based on historical results – future results may vary. As of December 31, 2024. It is not possible to invest in indices.

Fixed-Rate Investing When Rates Fall

Locking in Fixed-Rate Term Investing vs. Sliding Down Falling LGIP Rates



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Sample Credit Screening Process

Credit Research Process

Idea Generation

- Trading Desk
- Credit Research Team
- Portfolio Managers

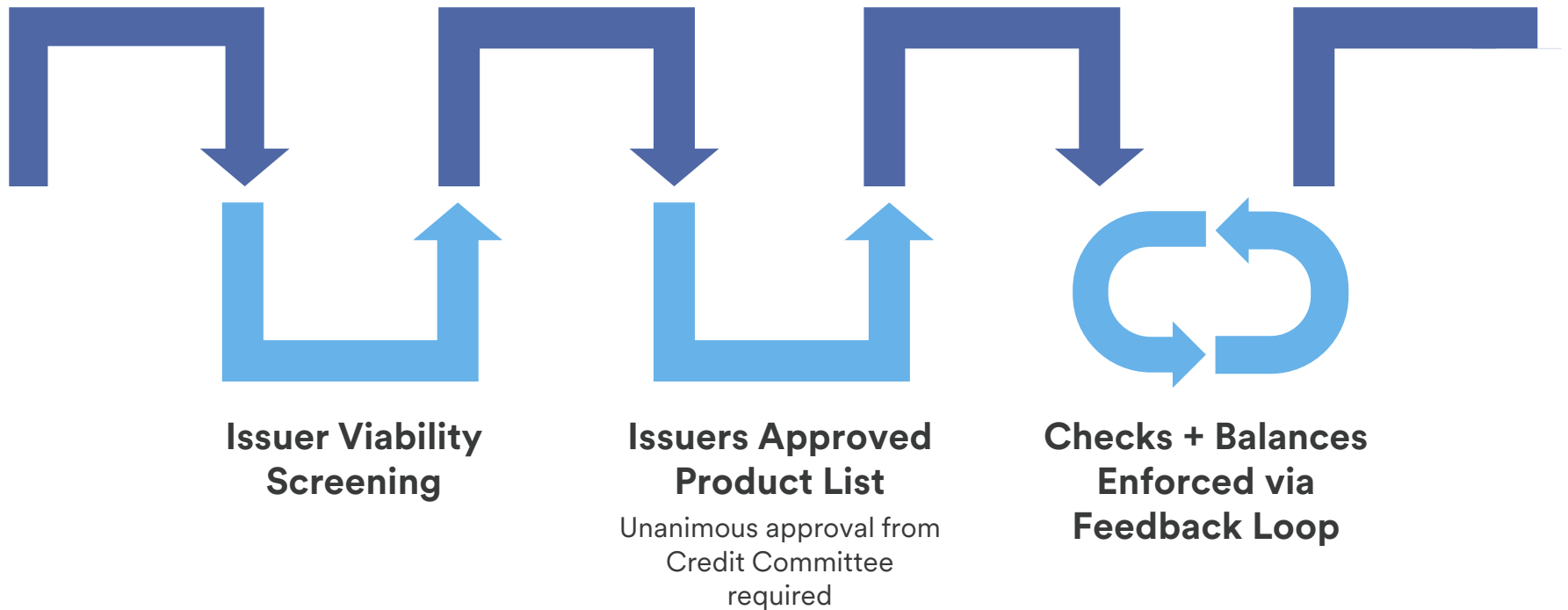
Detailed Analysis by Credit Analyst

Continuous Monitoring

For changes that may impact stability and subsequent recommendations for modification

Approved List

Any Credit committee member can request issuer removal from List



Summary of Investment Strategy Considerations

- Federal Reserve
 - Dual Mandate
 - Unemployment – 4.2% in March 2025
 - Inflation – CPI 2.4% in March 2025
 - Currently focused on tariffs and other potential federal policies that may impact their dual mandate
 - Rates are still close to 15-year highs, despite flat yield curve.
- Interest rates will rise & fall
 - When?
 - What pace?
 - Establish a disciplined investment strategy to weather all market environments
- Cash Flow & Investment Policy are Key
 - Ensure investment policy is updated and aligns with your investment objectives and risk tolerance.
 - Identify balances available for longer term investing vs. short term funds
 - Optimize cash balances, excess cash historically leaves investment income on the table
 - Funds not intended for spend should be invested in a longer term, diversified reserve portfolio

Questions?



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